PHILIPPINES ECONOMIC WRAP-UP

DECEMBER 02-08, 2000

Summary

In addition to our regular reports on forex, stock and credit markets, we note new numbers indicating an acceleration of inflation. We also report on the second consecutive monthly decline in exports, a somewhat worrying trend. Finally, we note the impact of the current economic slowdown on several specific firms and industries, with a spot of good news at the end about investments in the electronics industry.

Readers should note that we will publish the "Wrap-Up" on December 15 and 22; we will not publish the "Wrap-Up" on Friday, December 29.

These weekly reviews are available on the Embassy's web site (http://usembassy.state.gov/manila). We provide a longer and more detailed review of the Philippine economy in our October Economic Outlook, which is also available on our web site.

Contents

MARKET AND POLICY DEVELOPMENTS
- Forex Report
- Credit Market Report
- Stock Market Report
- November Year-On-Year Inflation Jumps To 6.0%
- Exports Slip For The Second Straight Month
- Economic Pinch Spreads
- Ecozone Authority Tells A Different Story

Market and Policy Developments

FOREX REPORT

The value of the Philippine peso depreciated again beyond P50/US$, coinciding with the onset of the impeachment trail of President Joseph Estrada. Trading was influenced by the onset of the trial; observers noted that on the day the trial began (December 7) the value of the peso sank sharply in fear that the legal process would be protracted, but then quickly recovered as the first day went smoothly. While the political process influenced trading patterns, however, the market remains focussed on fundamentals, including concerns about future trends in interest rates and inflationary pressures. Overall, the Philippine peso closed on December 8 at P50.05/US$; the December 1 close was P49.56/US$.

Exchange Rate Tables

Date	Weighted Average (Pesos/US$)	Closing (Pesos/US$)	Volume (Million US$)
OCT 30	51.427	51.480	77.8
31	51.680	51.000	28.5
NOV 01	Markets Closed		
02	Markets Closed		
03	Markets Closed		
NOV 06	48.895	48.050	133.5
07	48.911	49.250	133.5
08	50.189	50.100	154.5
09	50.414	49.950	185.8
10	49.661	50.200	166.0
NOV 13	50.314	50.350	125.5
14	49.885	49.830	93.5
15	49.717	49.800	65.5
16	49.904	49.890	124.4
17	49.915	49.860	79.5
NOV 20	49.834	49.815	68.1
21	49.554	49.490	97.0
22	49.465	49.120	156.7
23	49.151	49.380	113.2
24	49.544	49.930	131.5

NOV 27	49.440	49.410	150.0
28	49.393	49.520	93.1
29	49.590	49.630	174.4
30	Markets Closed		
DEC 01	49.667	49.560	142.0
DEC 04	49.471	49.475	130.8
05	49.565	49.585	84.7
06	49.832	50.050	70.0
07	50.273	50.210	122.6
08	50.108	50.050	92.0

Source: Bankers Association of the Philippines

CREDIT MARKET REPORT

In its regularly scheduled December 1 meeting, the Philippine Monetary Board (the highest policymaking body of the Bangko Sentral ng Pilipinas -– BSP, the central bank) decided to reduce overnight policy rates by 50 basis points effective December 4 (to 14.5% and 16.75% for borrowing and lending rates, respectively). The BSP, which had hiked overnight rates by 400 basis points on October 13 to temper foreign exchange volatility, cited that recent declines in T-bill rates and the relative stability in the foreign exchange market had provided the Monetary Board with some leeway to ease monetary policy. BSP officials subsequently indicated that a further easing (including a review of reserve requirements) was very possible despite the higher November inflation figures released on December 5 (see below). They observed that last month’s inflation was mainly supply-driven and that the rate was well within the BSP’s internal forecast (5.5-6.4%) and the IMF’s programmed level (7.1%) for that month.

Bid rates for the government’s 91-day T-bills softened following the BSP’s move, but did not prevent rates on the longer-term tenors from inching up. During the December 4 auction, the government made a full award of the P1 billion 91-day paper on offer at an average rate of 14.193% (down 61.3 basis points from the previous auction result). The P1.5 billion 182-day bills scheduled for sale was also fully awarded, but at a somewhat higher average rate (15.29%, up 12.2 basis points week-on-week). The government decided to make only a partial award (P1 billion) of the P1.5 billion 364-day bills on offer, which averaged 15.435% (up 19.9 basis points). The government also rejected most of the bids tendered during the T-bond auction on December 5. The government received P3.1 billion worth of bids for the P3 billion of 5-year T-bonds programmed for sale. It awarded only P1.3 billion at a coupon rate of 16.75%. The 5-year bonds were last awarded on September 12 at a coupon rate of 13.875%.

Despite government claims to a healthy cash position, analysts said that the government's gaping budget deficit may be prompting dealers to "test the waters" for higher returns. Inflation expectations and renewed anxieties over the possible impact on forex and financial markets of President Estrada's impeachment trial (which began on December 7) also may have contributed to higher bid-rates for the longer-term maturities.

Domestic Interest Rates (in percent)

Treasury Bills

Auction Date	91 days	182 days	364 days
OCT 30	no sales	no sales	18.926
NOV 06	16.723	17.229	17.389
NOV 13	16.292	17.022	16.863
NOV 20	15.637	15.749	15.977
NOV 27	14.806	15.168	15.235
DEC 04	14.193	15.290	15.435

Source: Bureau of the Treasury

Prime Lending Rates of 15 Expanded Commercial Banks

Date of Survey	Average	Range
OCT 26	15.9834	11.625 – 24.50
NOV 09	18.5480	14.50 - 21.172
NOV 16	18.6764	14.50 - 21.50
NOV 23	18.4160	14.50 – 21.367
NOV 29	18.2152	14.50 – 21.00

DEC 07	17.5226	14.50 - 20.806

Sources: Bangko Sentral ng Pilipinas; Press reports

STOCK MARKET REPORT

The Philippine stock market, which has already discounted the effects of political uncertainty, went into a 'wait and see' mode with the onset of the impeachment trial of President Joseph Estrada. The average daily value of shares traded, already moribund at P1414 million since the beginnig of the year, shrank to just above P500 million/day this week. The 33-share Philippine Stock Index (PHISIX), having broken through the psychological support level of 1400 late last week, eased only slightly. From its December 1 close of 1386.25, the PHISIX ended the week at 1400.36. (See section II for detailed stock market data.)

Philippine Stock Exchange Index (PHISIX) and
Value of Shares Traded

Date	PHISIX Close	Value (Million pesos)
OCT 30	1284.66	359
31	1287.85	536
NOV 01	Markets Closed	
02	Markets Closed	
03	Markets Closed	
NOV 06	1500.10	3840
07	1512.58	2084
08	1478.42	1768
09	1488.79	1006
10	1488.95	857
NOV 13	1455.94	695
14	1469.58	724
15	1469.20	3703
16	1468.44	2371
17	1470.52	2531

NOV 20	1465.10	2496
21	1449.00	757
22	1456.65	498
23	1447.74	599
24	1442.27	599
NOV 27	1434.25	448
28	1418.04	655
29	1404.83	695
30	Markets Closed	
DEC 01	1386.25	1100
DEC 04	1381.83	561
05	1381.23	551
06	1393.29	599
07	1390.67	504
08	1400.36	623

Source: Philippine Stock Exchange

NOVEMBER YEAR-ON-YEAR INFLATION JUMPS TO 6.0%

The government's National Statistics Office (NSO) reported that November 2000's consumer price index (CPI) increased by 1.2% month-on-month, accelerating from October's 0.7% increase. That month-on-month acceleration was caused mainly by price hikes in the heavily-weighted food and beverage index (55%of the CPI basket) -- which rose 1.4%, almost five times October's 0.3% increase. Typhoons sharply drove up prices of certain agricultural products during the month, with higher operating costs (such as fuel and transport expenses, a weaker peso) also triggering higher adjustments for certain food items. While the other major indices (i.e., housing and repairs, services, clothing, fuel/light/water, and miscellaneous items) also increased month-on-month, they did so at generally slower rates than in October.

As expected, the CPI increased more markedly in year-on-year terms (partly reflecting the effect of a relatively lower 1999 base). The overall CPI jumped by 6% from November 1999 compared with October's 4.9% rate, with all major indices posting higher year-on-year increases. November 2000's inflation rate marked the highest year-on-year CPI increase posted since June 1999. A further year-on-year acceleration seems likely as fuel-price hikes, government-approved minimum wage adjustments, a weaker peso, and higher financing costs work their way into overall price levels. Manufacturers have indicated that they are finding it increasingly difficult to hold off more significant price adjustments as cost-push pressures escalate. Nevertheless, year-on-year inflation has been lower than expected -- averaging 4% during the first eleven months of the year and expected to end 2000 below the government's targeted 5-6% average full-year range. Hol

PHILIPPINE CONSUMER PRICE INFLATION
(IN %)

	Year-on-Year	Month-on-Month
Jan 1999	11.5	2.1
Feb	9.9	(0.1)
Mar	8.7	(0.3)
Apr	7.9	(0.1)
May	6.6	0.1
Jun	5.7	0.8
Jul	5.7	0.2
Aug	5.5	0.3
Sep	5.7	0.5
Oct	5.4	0.3
Nov	3.9	0.1
Dec	4.3	0.1
Average		
Jan-Nov 1999	7.0	
Jan-Dec 1999	6.6	
Jan 2000	2.6	0.5
Feb	3.0	0.3
Mar	3.3	0.1
April	3.7	0.2
May	4.1	0.4
Jun	3.9	0.7
Jul	4.3	0.5

Aug	4.6	0.7
Sep	4.6	0.5
Oct	4.9	0.7
Nov	6.0	1.2
Average Jan-Nov 2000	4.0	

Source: National Statistics Office

EXPORTS SLIP FOR THE SECOND STRAIGHT MONTH

Driven by declining shipments of electronic equipment and components, merchandise export growth year-on-year has slipped for the second straight month: 5.2 percent in September and 1.8 percent in October (table I). October receipts fell from $3.46 billion to $3.40 billion, reflecting a 13 percent year-on-year fall in demand for electronics from $2.27 billion to $1.97 billion. Gains from growing sales of other manufactures (33 percent in automotive parts and 22 percent in garments) failed to offset sales slowdown in the electronics sector (Table II). The export sector’s poor performance in the last two months further slowed cumulative export growth to 7.7 percent for the year ending October, far from the robust 19 percent growth rate logged in the first ten months of 1999.

In a meeting with Embassy officials, the association president of electronic manufacturers (Semiconductor and Electronics Industries in the Philippines, Inc. or SEIPI) has conceded that transfer prices of many electronic devices have rapidly gone down as existing models are rapidly replaced by new and improved-technology products in the market. His one-year old cellular mobile phone now cost much less compared to a year earlier. But some industry analyst see weakening exports as a signal of an economic slowdown. Industrialist Raul Concepcion, head of the Federation of Philippine Industries (FPI), has said roughly half of FPI members have scaled down operations due to the weakening peso, rising interest rates, demand for higher wages, and political uncertainty.

Table I

Philippine Export Performance
January – October 2000

	1999	2000	Pct Change
	(Value in Mill US$)		(y/y)
January	2,581	2,717	5.3
February	2,569	2,902	13.0
March	2,702	2,989	10.6
April	2,346	2,668	13.7
May	2,747	2,931	6.7
June	2,857	3,410	19.4
July	2,851	3,216	12.8
August	3,212	3,529	9.9
September	3,693	3,502	(5.2)
October	3,460	3,398	(1.8)
Jan-Oct	29,018	31,265	7.7

Source: National Statistics Office

Table II
Major Philippine Exports
October 2000

	October 1999	October 2000	Increase/ decrease
	(Value in Mill US$)		(in pct)
TOTAL EXPORTS	3,460	3,398	(1.8)
Manufactures	3,160	3,063	(3.1)
Electronic Eqpmt & parts	2,269	1,971	(13.1)
Mach. & Transport Eqpmt	473	629	33.0
Garments & Textiles	175	213	21.7
Other Manufactures	243	250	2.9
Agro-based Products	155	153	(1.3)
Coconut Products	67	52	(22.4)
Fruits & Vegetables	39	50	28.2
Fish, Fresh/preserved	30	37	23.3
Other agro-based	19	14	(26.3)
Mineral Products	56	39	(30.4)

Other Traditional	39	34	(12.8)
Other Transactions	60	80	33.3

Source: National Statistics Office

ECONOMIC PINCH SPREADS

Fast food leader Jollibee Foods Corporation (JFC) has cut back its store expansion this year, from 50 to 40, as the economic slowdown starts eating into its profit margins, JFC vice president for finance reported. The JFC official added that with increasing production cost, slowed sales and demand for higher wages, JFC's net income during the third quarter of the year was flat at P187 million ($4.2 million). From January to September its cumulative income of P642 million (about $14.3 million) was only 1.1 percent higher compared to the previous year's level. The company sees a significant rebound by the first half of 2001 with the May forthcoming elections, which is projected to add a considerable amount of cash into the monetary system. JFC now operates 29 stores abroad and 718 stores in the Philippines, including pizza chain Greenwich and Chinese fast food Chowking.

Norkis Trading Company, the 40-year old domestic assembler of Yamaha motorcycles, is temporarily shutting down operations effective this month, the firm's spokesperson said. To avoid further losses, Norkis has actually stopped importation since November (at least 90% of their required components is imported) due to the depreciating peso, which translates to (at least) a 25% increase in production cost. Declining sales from 6,000 units a month during pre-crisis level to 2,500 units a month since after the 1997 Asian financial crisis, and the recent 40 percent fall in monthly production make the assembly business a losing proposition. The Norkis spokesperson asserted the firm will still be able to continue selling Yamaha motorcycles up to mid-2001, and maintain an assembly plant for the less expensive Econobikes (assembled from imported but used motorcycle parts). Norkis turns out around 1,000 Econobikes monthly.

Levi Strauss is also cutting down its Philippine production of jeans. Demand from its largest market, Japan, continues to decline as it is unable to keep up with fast shifting fashion preference of young consumers. Given the rising cost of material inputs, particularly with the continuing depreciation of the peso against the dollar, Levi's Philippines capacity has been reduced by 22 percent from 3.7 million pieces to 2.9 million pieces annually. Levi's exports 72 percent of its production, mostly to Japan and the U.S.

Sarao Motors, the pioneer and leading maker of the Philippine jeepney (the symbol of President Estrada's pro-poor program), has decided to close shop. A large number of commuters have learned to rely on air-conditioned "Mega-taxis" and the newly expanded railway transit system (the Light Rail Transit that runs through downtown Manila and the circumferential Metro Rail Transit). Acknowledging the expanding public transport system, Sarao Motors' owner claims current economic programs and policies hurt small local manufacturers, particularly home-grown industries. The rising cost of replacement parts squeezes return on investment at the same time that interest rates have gone up. Maintenance costs have risen substantially, and fuel price increases shows no sign of letting up. Under these circumstances, said a spokesman, Sarao Motors had no choice but to close its assembly plant and lay off 250 regular workers.

ECOZONE AUTHORITY TELLS A DIFFERENT STORY

Two computer chipmakers - Analog Devices and Psi Technologies - are investing a combined P2.5 billion (about $55.6 million) to expand domestic operations and meet higher demand overseas. The Philippine Economic Zone Authority (PEZA) reported that Analog is investing P1.8 billion ($40 million) into its existing factory at the Gateway Business Park Special Economic Zone to jack up production of ICs. The new production line, which is scheduled to start commercial operations by early 2001, will supply growing demand from Analog Devices' American and European subsidiaries. PEZA granted Analog a three-year income tax holiday on incremental sales. PEZA also granted Psi Technologies an income tax holiday for investing P695 million ($15.4 million) in the manufacture of small signal transistors for shipment to the U.S., Singapore and Japan by early 2001. It remains to be seen if these expansion projects will help arrest declining shipments of electronics in particular, and the export slowdown in general. PEZA, which grants investors more generous incentives, has outperformed the Board of Investments (BOI) in attracting foreign investments.